must, therefore, be had to the number and character of the depositors, the volume of their deposits and that of the clearing-house transactions, before any valid conclusions could be drawn. One thing, however, which is clearly established by the statistics is that decided progress is being made in nearly all countries in the substitution of credit instruments for cash.

H. PARKER WILLIS.

A NEW PRESENTATION OF ECONOMIC THEORY.

THERE is always room for a new political economy. Whether it be that some particular aspect of the science, perhaps new, perhaps old, absorbs the interest of an author, or whether he aims more at codification and comprehensive statement, his work is equally acceptable, provided it be well done. An instance is found in the book recently published by Mr. H. J. Davenport.[1]

Mr. Davenport's work is rather of the latter class than of the former, and is unquestionably well done. It presents, however, some novel features and statements to which we shall first direct attention.

It is true that there is now nothing novel in the demand theory of value; and yet we are never quite certain what is meant by the "demand" theory. Each author interprets it to suit himself. What, then, is Mr. Davenport's conception? In the first place, he agrees with many in identifying a theory of demand with a theory of utility: utility is determined by or flows from demand. We are expected to seize this point of view firmly and to use it as the golden thread which may guide us through the mazes of political economy. Evidently we shall be troubled in this logic if we attribute values to the individual on the one hand, or to society on the other. It is plain that where the same individual is the producer and consumer, the sphere of activities cannot be banished in favor of the sphere of pleasures. If, however, we confine our view to the exchange of commodities, there is more room for the demand arguments; and consequently we are introduced to no value except value in exchange.

This logic further seems to require that demand be always treated as a purely psychological force. In individual and social values it is evident that there is no psychological demand separate from effectual

[1] *Outlines of Economic Theory*, by HERBERT JOSEPH DAVENPORT. New York, 1896.

demand; in those cases consumption and production are identified. Society cannot consume unless it produces, nor can the isolated individual.

In order, therefore, to make our demand purely psychological, we must get away from society as a whole, and find intermediate ground. May there not, however, be a psychology of supply? It seems that the "demand" economics, in order to do away with effectual demand, assumes that economic psychology excludes supply; otherwise it must surrender its title, for effectual demand involves production as a condition precedent.

Evidently effectual demand cannot be excised from the problem of exchange. The very first lesson in the money question must be that each purchase must be preceded by production, and that the same is true of each sale. The simple truth that the total product of society is at once supply and demand is worked out through an infinite number of exchanges, in which that product alternately acts as offer and acceptance. It is not, of course, denied that this operation always takes place in reference to humanity, and that it passes through a psychological menstruum; but this is no concession to the demand theory.

The proper concession to make to that theory seems to the present writer to be this: It is true that, apart from immediate experience, both the social mind and the individual mind contain preferences which are the result of heredity, of prejudice, or of immemorial experience; such preferences naturally exert an influence upon choices; they establish a scale of wants. But do they not also equally establish a scale of activities, and control enterprise and production? This latter question the "demand" economist does not propound. For this psychology of choice, which Professor Macvane is inclined to concede, the present writer has elsewhere suggested the term *worth*. Granting, for sake of argument merely, that worth, or an ideal list of choices, is purely a category of demand, it still remains that nature has to be reckoned with in the ordinary course of production, and that she demands her rights in the market place.

Brushing aside such refinements, however, the common experience of the matter seems to be that exchange value is the rate at which the product of the seller is exchanged against the product of the buyer. Demand ought to be, but is not, treated as a condition of the mind engaged in production, consumption, and hence in exchange. It is

true that "supply" would do just as well; the two can only be separated as the artificial distinction between buyer and seller, a distinction that has no very wide application in science.

It is not denied that there is a political economy of demand, because it is recognized as a useful point of view. The science has never progressed so rapidly as since this point of view became dominant. It may be wrongly named; but we shall probably for a long time be asked to use the simple but erroneous term "demand" economics instead of the more correct "psychologic" economics. Some point of view is necessary, nor can we ask that any work embrace all points of view.

Mr. Davenport's treatment of his point of view is full of force and rich in fruits. Nor would we have thought necessary to comment upon it had he not appeared to make exclusive claims for it. Curiously enough, the arrangement of the contents of his book appears to pass from the treatment of value, first to those subjects to which his point of view readily lends itself, and then gradually to those in which cost of production is more useful for his purpose. It is, indeed, admitted early in the work (p. 63) that cost of production has a relevancy in affecting *future* supply of goods as well as of services. But why not give this prophecy a larger place in the problem? The relation of cost of production to the psychology of choice is well explained on the model of the Austrian school, but we cannot agree with the statement that "the problem is always to adjust cost of production to price—never price to cost of production" (p. 56).

The duality of the science and its two lines of investigation are early stated, but seem to disappear from view during the earlier discussions. It is, for instance, denied, in pure conformity with the Austrian school, that wages have anything to do with value and exchange except as benefiting by them. Wages are in no sense to be considered as a result of sacrifice, but only as a derivative from products.

Goods alone then have exchange values; services have none. This is a very inorganic conception of distribution. Is it consistent with the author's contention that labor and capital compete with each other? (p. 148.) If the latter very reasonable view of the adjustment of wages be adopted, then are we to look to the products for the value of labor and capital any more than we are to look to labor and capital for the values of the products? The demand theory evidently says that we are.

Again, in the course of his very able treatment of the subject of capitalization, the author claims that the destination of loan funds is

independent of the amount of consumer's wealth. If we understand him aright, he means that in the long run it is the habit of investment ("demand") that will determine the application of loan funds, whether to consumption or to production. Not only, however, does this conclusion involve an exclusive demand theory but also an exclusive long-time theory. If, however, he had taken a short-time view, he would have been led to concede a certain vitality, which Professor Taussig has pointed out, in the wage-fund doctrine, that the existing products and those about to be produced exert a powerful effect both upon exchange values and on wages. On the other hand, in criticising General Walker's residual-claimant theory, he takes a decidedly short-time view; he thinks that after the shares of rent, interest, and profits have been cut off from the social product, the surplus does not fall to wage-earners, but to consumers; because as those shares decrease in any particular industry the price is lowered, and consumers obtain the advantage; and as this operation takes place successively in different industries, the result must be a net gain to consumers.

On this point Mr. Davenport has much authority. Mill allows consumers to reap the benefit of low prices caused by improvements, and he denies that low general prices can decrease wages. Jevons states (*Theory of Political Economy*, 3d ed., p. 269): "Competition will proceed until the point is reached at which only the market rate of interest is obtained for the capital invested. At the same time wages will have been so raised that the workmen reap the whole excess of produce, unless indeed the price of the produce has fallen, and the public, as consumers, have the benefit."

There is, however, a lack of generalization about this method of reasoning — this attacking of the enemy and defeating him in detail. A more long-time way of approaching the subject would be to believe with Professor Patten that all increased variety of consumption and facility of production raise the general social margin of activity, and that each advance creates a surplus which is thrown open to the contention of all the producers, since they, by virtue of their production, stand within the industrial world and obtain a share of its benefits. The question here suggested may be, after all, largely one of terminology and point of view.

A graver objection, however, lies in the suspicion that this method of treatment is really an avoiding of the issues of distribution. Producers and consumers, as such, cannot be parties to a system of distri-

bution. To say that so much goes to the consumers in a society helps us not at all towards the solution. The question is, What portion of the social income flows into the pockets of each social class? It is common to select the various classes of producers as the recipients of the social income. Now it may be possible to work out the answer by the aid of the theory of value, or through production, or consumption, or in all three ways; in any case the whole social income must be used up and no surplus must be left over. A man's real income is as much the result of the price at which he buys as of the price at which he sells. A lowering of price to all consumers equally may be assumed to affect all equally, in which case no progress is made; and if it affects different classes unequally, the effect on each class must be shown, and this has not been done.

If labor has not a value of its own, determined upon general principles of value, then there is no method of distributing the value of a commodity toward which labor has contributed, not to speak of the rewards for direct services not embodied in a commodity. The recognition of the principle of value in distribution would seem to simplify the solution.

Rigorous logic is one of the merits of this work, and is consciously pursued with the most satisfactory results. There is a point of view, however, which may advantageously supplement the logical, and that is the organic. It is true that logical results must be organic, if correct, and that organic results must be logical; but the logical point of view seems to be uppermost in Mr. Davenport's consciousness. It is possible to attain to the highest results with the simplest organa. As Newton achieved his successes with the aid of geometry alone, so Mr. Davenport reaches organic conclusions from a purely logical standpoint. Nor is the comparison unnecessarily flattering to the latter gentleman, especially upon the topics of credit and money.

But we have hardly touched upon the most characteristic portion of our author's treatment of the theory of value. In order to establish a "theory" of value, something more than a point of view is evidently needed; and Mr. Davenport finds this additional moment in *sacrifice*. This is distinguished from pain or labor; it is simply the choice which one makes in acquiring or surrendering one article rather than another. If it were a question of buying strawberries or raspberries, and you take strawberries but might have taken raspberries, then raspberries measure the value of strawberries. That is all.

If it is necessary to have a "theory" of value, this one is perhaps as good as another. There is a misty indefiniteness surrounding the theory of value which needs to be cleared up by a higher self-consciousness as to the function and purpose of theory in general. Thanks are due to our author for the clear statement of the action of choice in this connection, and a large degree of originality is to be warmly accorded.

The present writer has knowledge that this theory had already been committed by Mr. Davenport to manuscript form so early at least, as October 1892. Mr. Davenport's article on "The Formula of Sacrifice" (JOURNAL OF POLITICAL ECONOMY, September 1894, Vol. II, p. 561) and Dr. Green's excellent article, "Pain-Cost and Opportunity-Cost" (*Quarterly Journal of Economics*, January 1891, Vol. VIII, p. 218) treat a similar topic.

Mr. Davenport, like other "demand" theorists, looks upon sacrifice as a subtheory—a wheel within a wheel. The exclusiveness of the demand point of view, however, is open to question, as already stated, and the sufficiency of the sacrifice theory must be tested by some criterion of theories in general. This criterion must rest largely in the purpose we have in view. Do we wish a test for values everywhere, or do we wish a test for values as they appear in industrial life? Is value the boundary line which circumscribes the economic field, or is industry the frontier? Here is a new discussion for economists. The principle of value is evidently wider than the economic field. When a determinant becomes universal to a group, being accepted, however, in varying degrees by different members, then the degree in which it is accepted by the last member establishes its value; and all persons not accepting the test are thereby excluded from the group. Thus patriotism is a social value, but is surely a most uneconomic quantity.

Now it may be that the test of sacrifice extends to patriotism or not; at any rate, the question is raised whether the test of sacrifice is not too thin to afford satisfaction within the economic field. We need something more definite and substantial. Our desire for generalization may cause us to generalize far and away beyond our proper subject-matter. As already shown in discussing the demand theory, this subject-matter is that of industry, and however far we may extend the science beyond the pale of industry so that it becomes a science of weal rather than a science of wealth, it will ever remain true that

industry is the proper subject-matter of the science, and that extensions beyond limits marked out by industry are due to the impossibility of restricting our human interests within the proper sphere of any one science, and especially to the wide applicability of methods originating in political economy. Thus the psychology of economics introduces us at once to the general science of sociology, in which human satisfactions and pains, and social ideals and values are subjected to common standards of progress independently of their economic or non-economic origin. Evidently rent of satisfaction or consumer's rent is not economic because it is a surplus, but only when it arises from industry.

Sacrifice as the determinant of value is apparently simply a statement of the law of substitution so ably presented by Professor Alfred Marshall. It is the action within the industrial field of the general principles of evolution, selection, and survival. As admitted by Professor Marshall, it is not a theory but a point of view giving insight into organic life. In order, however, that it may assume economic character, it must be clothed in economic garments. So far as we are to deal with "theories," they must plainly bear the marks of industry; the laws of evolution must be specialized.

It is not necessary that there be a single "theory" of value. We are here presented with a question of the necessary methods of thought —the laws of thought. A science is a limited area of investigation, a compact body of knowledge centering about a principle or unique, homogenous concept. In economics value, occupies this central position: it is, in mathematical language, a function of which the forces studied are variables. It can therefore have no single determinant: sometimes one variable and sometimes another is the determinant.

This point of view will be found useful in studying value theory. The marginal theory is so undisputed in the science that other theories are now always regarded as adjuncts. Such are the theories of utility, disutility, the marginal-expenses theory of Professor Patten, and the sacrifice theory of Mr. Davenport. The chief contention seems to be as to the breadth of application of these theories; but because one theory is found to apply twice as often as another, is it thereby constituted as *the* theory? Various classifications might be suggested which would make one or another theory seem more pertinent. It is possible that the size of the social group under consideration may

affect the question. It may be that an individual or small group may sometimes be placed in a situation where mere utility presents itself as a controlling influence without further suggestion, or where mere "marginal indifference," as Jevons calls it, is the only motive. It may be that as the groups grow larger this indifference becomes rarer, until we are forced to conceive of society as a whole, little engaged in choice of products, but always busy adjusting social quantities of labor and pleasure.

In a discussion of any economic topic, some one of these criteria is necessary. Thus the "demand" theory is made useful in the discussion of protectionism (p. 57). But cost of production is admitted to control the course of international trade (p. 182) under the alternative title of "sacrifice of production." It is admitted (p. 187) that production limits wages, profits, and rent; and again, it is stated (p. 189) that "value is an expression of the resistance to be overcome;" and again (p. 196) that "production is the purchase from nature of utility, at the price of effort." It may be added that since nature is the seller, she must be able to set her price (supply) as much as man, the buyer (demand). It is further stated (p. 227) "that the causes which have served to make greater consumption possible have themselves served to make greater consumption necessary." Many other examples could be chosen to show that the trained economist's application is likely to be more correct than his central theory.

Mr. Davenport's discussion of rent is very good: the intricate relations of fertility, transportation, cost, improvements, population, price, and demand are worked out with great adequacy, and this chapter is especially to be recommended to teachers who find it difficult to impress upon their students the importance of the subject. Still, it was hardly necessary to isolate the element of demand, and then to jump to the conclusion that demand is the principal factor in rent (p. 91).

However, the discussion of the money question is by far the ablest portion of the book, and one of the strongest presentations that we remember to have seen. In this question it is essential to combine a thorough grasp of general principles with such an explanation as will meet the requirements of contemporary popular discussion. Both in theory and in presentation Mr. Davenport has achieved remarkable success. Mill begins his exposition with the quantity theory; Mr. Hadley starts with the international exchanges; but Mr. Davenport,

having elsewhere clearly stated the effect of credit upon the volume of the circulating medium, approaches the main question with a consideration of Gresham's law, which is felicitously stated, not as an exportation of money, but as a domestic disuse of money. Very happily, again, money is stated as having one main use, that of exchange; its other uses, especially that in deferred payments, are stated as corollaries. It is thus made plain that deferred payments are as much cases of barter as are cash purchases. He then proceeds to describe the quantity theory as a function of Gresham's law. All bank money and government money is considered to be fiat money. The money question, then, is one of the displacement of commodity units by fiat units. A purely commodity currency is not subject to displacements of this nature; its value is regulated at the margin of indifference between use in the arts and use as money. (For all that, fiat money has *its* marginal value; but the line of division is skillfully drawn.) This distinction is pushed so far that the value of limited issues is treated as though derived from fiat. The volume of credit is correctly assumed as stationary; rapidity of circulation is not independent of activity of trade, but dependent upon it. The last point seems to remedy a defect in Mill's presentation. Finally, an accurate estimate is made, by means of algebraic formulæ, of the effect on the value of currency of the displacement of a certain portion by fiat money. The reasoning thus presented is important. (Note a misprint in the last equation — p. 255 — of 909.99+ for 999.99+.)

A novelty in this book is the recognition of the recent discussion of deferred payments, and an excellent appreciation of their importance. But the indefinite conclusion is reached that the debtor should return to the creditor something more than the commodities received if a period of improvements has intervened since the creation of the debt, while the creditor is not entitled to the whole benefit of those improvements. Between these limits, says our author, it is hard to fix the exact proportions, but it is evident that they should be affected by the standard of living in some way or other. Now this is good so far as it goes, but it does not go far enough. It is true that whatever may be the function and importance of social laws, their statistical determination is in many cases difficult; but statistical difficulties should not have turned our author aside from the severe objectivity which he has maintained elsewhere in the theoretical portion of his work. Objectivity demands the formulation of exact principles, and if such require-

ments had been followed it would have been found that the social laws of industry require the return of equal *values*, and that compliance with the social law is justice.

Failure to reach this conclusion is not hard to explain; it flows naturally from the refusal to recognize any values except exchange values. If social values had been recognized the whole difficulty would have been obviated. The lack of a social, organic point of view accounts for the absence of normal standards to which the individual must be held accountable. Mr. Davenport is thus thrown back upon vague conceptions of a standard of living similar to the idea of social distinction put forward by Professor Ross (p. 229), although he avoids Professor Ross's argument of "once a margin always a margin." A certain confusion in the relation of value to utility also appears in the phraseology that "value is the measure of utility" (p. 44).

The exclusive-exchange-value theory, however, is not consistent with the idea put forward by Mr. Davenport (and here he has the authority of Professor Smart) that the tendency of progress is for values to disappear. Whether this fact be as stated or not, we have here an admission of social values! The fact, however, can hardly be as stated, for the satisfaction of one want is admitted to be followed by the appearance of another, so that it is much more probable that Professor Patten is correct in saying that in the dynamic society value tends to obliterate rent and to become coextensive with utility.

Space will not permit a further discussion of such points as offer material. After all, the chief attraction of this notable book lies in the method of presentation. The writer is especially strong in analogy; instances, illustrations, and parallels drawn from every walk of life and every natural kingdom are everywhere heaped up in luxuriant profusion. The same remarkable powers of suggestiveness are shown in the questions at the beginning and end of each chapter. The accepted maxims of political economy are reiterated in every appropriate connection, as they should be. An air of actuality and of common sense pervades the entire work.

The division of the book into the science on the one hand and the art of political economy on the other is admirably adapted to a rigorous objective treatment in the former part and to an excellent and interesting series of social essays in the latter. The former portion is essentially *un*moral. Theoretically, perhaps, this arrangement is not defensible; for if the objective science establishes rules of normal

action, justice is but an obverse statement of these rules and hardly a separate topic. Such a close connection between justice and economics, however, has not appealed to Mr. Davenport, as we have already remarked in commenting upon his treatment of deferred payments. The division adopted has great advantages in exposition.

The comprehensiveness, fairness, and modernness of this book, and the strong and pleasing personality which it discloses, augur for it a wide usefulness among general readers and among teachers of economics.

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